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# Sixth progress report on the adoption of the International Public Sector Accounting Standards by the United Nations

## Report of the Advisory Committee on Administrative and Budgetary Questions

## I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the sixth progress report of the Secretary-General on the adoption of the International Public Sector Accounting Standards (IPSAS) by the United Nations (A/68/351). The Committee also had before it the third progress report of the Board of Auditors on the implementation of IPSAS (A/68/161). During its consideration of the reports, the Committee met separately representatives of the Secretary-General and the members of the Audit Operations Committee of the Board, who provided additional information and clarification, concluding with written responses received on 17 September 2013.

2. The Advisory Committee recalls that the General Assembly, in its resolution 60/283, approved the adoption by the United Nations of IPSAS. The Committee also recalls that the Secretary-General submitted progress reports on the adoption of IPSAS to the Assembly in 2008 (A/62/806), 2009 (A/64/355), 2010 (A/65/308), 2011 (A/66/379) and 2012 (A/67/344). In his sixth progress report (A/68/351), the Secretary-General reviews the activities relating to the implementation of IPSAS at the United Nations and other relevant organizations of the United Nations system during the reporting period (1 September 2012-31 August 2013). The report covers the activities being undertaken to implement IPSAS in the Secretariat, in addition to the activities of the system-wide IPSAS project team and progress made by the organizations of the United Nations system. Background information on the project is provided in paragraphs 1 to 4 of the report.

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## II. Implementation at the Secretariat

### Overview

3. Information on the implementation of IPSAS in the Secretariat is contained in paragraphs 5 to 83 of the report. The Secretary-General indicates that IPSAS accounting for peacekeeping operations was successfully launched on 1 July 2013 and that the project remains on track for the timely implementation of IPSAS for all non-peacekeeping operations as from 1 January 2014.

4. The Secretary-General indicates in the report that the project's focus during the reporting period has been on implementation activities by local IPSAS teams at offices away from Headquarters, regional commissions, field and special political missions and other offices. He further indicates that progress has been made in the areas of preparing opening balances for assets and liabilities, coordination of activities with the Umoja team and the implementation of transitional arrangements involving the enhancement of existing legacy systems to address the delay in the implementation of the Umoja enterprise resource planning system. Figure 1 of the report shows the major pre-implementation, implementation and post-implementation milestones from January 2012 to December 2015.

### Governance

5. The actions taken with regard to the governance of the project are outlined in paragraphs 9 to 14 of the report. It is indicated that the IPSAS Steering Committee was reconstituted in February 2013, chaired by the Controller and comprising the Assistant Secretaries-General for Field Support, Economic and Social Affairs, Humanitarian Affairs, Information and Communications Technology, Central Support Services and Umoja; the directors of administration for the United Nations Office at Geneva, the United Nations Office at Nairobi and the United Nations Office at Vienna; and the chiefs of administrative services for the Economic and Social Commission for Western Asia and the Economic Commission for Latin America and the Caribbean. The Secretary-General also indicates that the Steering Committee meets monthly to receive briefings from each implementation team, with a special emphasis on monitoring implementation risks.

6. The Secretary-General also reports that an independent project assurance role has been created, based on a recommendation of the Office of Internal Oversight Services to provide an impartial assessment of the health of the project. The role of the Project Assurance Officer is to validate the reliability of the information being reported to the Steering Committee, recommend improvements to reporting processes and highlight deficiencies.

7. **The Advisory Committee welcomes the reported progress in the implementation of IPSAS and the measures taken by the Secretary-General to strengthen the governance of the IPSAS project by reconstituting the Steering Committee and creating an independent project assurance function. The Committee is of the view that these measures will help to keep the project implementation strategy on track and ensure that implementation risks are monitored and addressed in a timely manner. The Committee also recommends that the project assurance function created in the IPSAS project should be extended to other major projects being undertaken by the United Nations.**

**Risk management**

8. In paragraphs 15 to 41 of his report, the Secretary-General outlines the actions taken to identify and mitigate risks to the implementation of the project. The risks are summarized in the risk heat map presented in figure II of the report. Upon enquiry, the Advisory Committee was informed that the United Nations had implemented a solid project and risk management framework for the implementation of IPSAS that included a centralized risk register maintained by the project management office and a risk register for each of the 46 local implementation teams. The Committee was further informed that updates on the local risks were contained in the monthly progress reports of the local implementation teams to the project management office. The actions taken to mitigate the risks were reviewed monthly by the Steering Committee.

**Transitional arrangements**

9. The Advisory Committee recalls that, in February 2012, the Umoja Steering Committee invoked contingency plans to address the slippage in the implementation of Umoja, which had been intended to serve as a backbone for the implementation of IPSAS. As a result of the delay, transitional arrangements were put in place for the IPSAS project in order to maintain its implementation deadlines. In paragraphs 19 to 26 of his report, the Secretary-General provides an update on the transitional arrangements, which are based primarily on a few enhancements to the Integrated Management Information System and Galileo, and the use of the Field Support Suite (a real estate database created as an interim solution to house the data for all real estate arrangements).

10. **While taking note of the reported progress, the Advisory Committee remains concerned with regard to two aspects of the IPSAS project implementation: the absence of a common system and format for recording financial data and the risk associated with the ability of temporary adaptations to existing systems to deliver accurate data for IPSAS-compliant financial statements (see A/67/564, para. 16). The delay in the implementation of Umoja notwithstanding, the Committee expects that the progress towards the implementation of IPSAS will remain on track.**

11. In paragraph 65 of its report (A/68/161), the Board of Auditors, while acknowledging the steps taken to date as positive, highlights the inherent risks in the transitional strategy where transactional data pass across a number of systems for consolidation in the Integrated Management Information System.

**Accounting for inventory**

12. In paragraphs 27 to 32 of his report, the Secretary-General discusses issues relating to accounting for inventory. He indicates that, in accordance with United Nations accounting policy, only financial inventory — items held for external sale and distribution, and strategic deployment stocks — is reported as current assets in the financial statements. All other non-financial inventory[1] is expensed at acquisition but tracked and managed like financial inventory. He explains that the policy facilitates the accurate valuation of inventory in peacekeeping operations and

[1] Non-financial inventory includes office supplies, minor spare parts and operational fuel. Strategic reserves of fuel and rations are considered financial inventory.

is in line with the policies of many other United Nations system organizations that have issued IPSAS-compliant financial statements. He further indicates that the Board of Auditors is continuing to evaluate this policy for compliance with IPSAS and has requested additional information to support the United Nations accounting policy of expensing all non-financial inventory. Upon enquiry, the Advisory Committee was informed that the Board had requested an estimation of the value and turnover period of the non-financial inventory in order to receive assurance that the amounts were not material and that the turnover period was sufficiently short for the inventory not to be recognized as an asset. **The Advisory Committee trusts that the engagement with the Board of Auditors will result in a policy that enhances the efficient management of non-financial inventory, especially in peacekeeping operations. The Committee looks forward to receiving information on the outcome of this engagement in the next progress report.**

**Opening balances of assets and liabilities**

13. In paragraphs 33 to 41 of his report, the Secretary-General discusses the challenges associated with the preparation of accurate opening balances of assets and liabilities in the light of the volume and value of the Organization's assets and the lack of an integrated system across the Organization's diverse operations. He indicates that the inventory of land and buildings has been completed and that self-constructed assets in field missions will be valued using the IPSAS-compliant depreciated replacement cost methodology. He also indicates that closing instructions for the financial period ended June 2013 and the preparation of opening balances for 1 July 2013 were issued at the end of April 2013.

14. In its report, the Board of Auditors highlights the generating and cleansing of reliable transactional data on assets based on reliable accounting guidance as the single biggest risk to preparing IPSAS-compliant financial statements, adding that it is critical that the opening balances for assets and liabilities be established as early as possible. The Board also indicates that the action plans of the United Nations do not currently include a milestone for the earliest dates on which opening balances would become available for its review. The Secretary-General agrees with the Board's recommendation that the testing and validation of data be undertaken by the end of September 2013.

15. **The Advisory Committee concurs with the recommendations of the Board of Auditors and urges the Secretary-General to ensure that the key target dates for submission of opening balances to the Board for review are met.**

**Realization of benefits**

16. The Advisory Committee recalls that the General Assembly, in its resolution 66/246, had requested the Secretary-General to ensure the full realization of the benefits associated with the implementation of IPSAS. In his report on financial management practices (A/60/846/Add.3), the Secretary-General had identified the following five key benefits associated with the implementation of IPSAS: alignment with best practices; improved stewardship of assets and liabilities; availability of more comprehensive information on costs; improved consistency and comparability; and increased transparency and accountability.

17. In paragraphs 57 to 64 of his report (A/68/351), the Secretary-General discusses the progress made in benefits planning. He indicates that the completion

of the benefits realization plan, which had been expected at the end of 2012, has been delayed owing to difficulties in securing external professional assistance and the inability of the United Nations team to devote adequate time to this activity without compromising its preparations for opening balances and supporting the design and testing of Umoja. He expects the plan to be completed by the end of 2013 for presentation to senior managers early in 2014. He also indicates that the preliminary benefits already achieved include a complete inventory of real estate assets; more accurate record-keeping of employee benefit liabilities data triggered by the quantification of employee benefits; better tracking of inspection of assets in peacekeeping operations; and a higher level of audit scrutiny, leading to more stringent internal controls.

18. In paragraph 15 of its report, the Board of Auditors highlights some early benefits based on the experience of the entities that have implemented IPSAS. When assessing the benefits of IPSAS, the Board also stresses the importance of assessing the associated one-time and recurring costs and of capturing quantitative and qualitative benefits in order to better determine the return on Member States' investment.

19. **The Advisory Committee is of the view that the range of potential benefits from the implementation of IPSAS goes beyond the five already stated by the Secretary-General. In this regard, the Committee recommends that the General Assembly request the IPSAS project management team to identify further potential benefits and stresses the responsibility of managers leading the effort not only to implement IPSAS but also to deliver its intended benefits. Furthermore, regarding the quantification of benefits and associated costs, the Committee concurs with the Board of Auditors and encourages the Secretariat to intensify its efforts in this regard. Based on its consideration of the financial statements of the nine United Nations system organizations that have adopted IPSAS, the Committee is yet to see a significant quantitative and qualitative improvement in the financial information presented. The Committee also encourages the United Nations project management team to draw lessons from other organizations that have already implemented IPSAS and disseminate them to the Secretariat and other entities where the implementation of IPSAS remains under way (see also A/68/381, para. 16).**

**Training**

20. The Secretary-General provides an update on IPSAS training in paragraphs 47 to 50 of his report. He indicates that the overall number of staff who have completed the computer-based IPSAS awareness training is approximately 9,600. He further indicates that 8,300 of the staff who have completed the awareness training have gone on to complete the computer-based working-level training. Furthermore, 3,300 staff involved in the preparation of opening balances who have completed the working-level training have taken instructor-led intermediate-level training, while advanced-level training is planned for the first quarter of 2014 for staff directly involved in the preparation of opening balances.

21. **The Advisory Committee commends the efforts made to build IPSAS awareness among staff through targeted training for different categories of staff according to their work requirements. From the lessons learned by other organizations, the Committee believes that training is key to the successful**

**implementation of IPSAS. Considering that the members of the legislative and expert bodies will be required to review and issue recommendations and decisions based on the IPSAS-compliant financial statements, the Committee recommends that appropriate IPSAS training be provided to them also, as a matter of priority, taking into account the fact that some United Nations entities are already producing IPSAS-compliant statements.**

**Project budget and expenditure**

22. The Advisory Committee recalls that, in its resolution 60/283, the General Assembly approved a budget for the IPSAS project amounting to $23 million, drawn from the regular budget and the support account for peacekeeping operations, and approved separately for each financial period. A statement of the status of expenditure as at 30 June 2013 is presented in the table following paragraph 79 of the Secretary-General's report. It shows that the project expenditure as at that date stood at $12.9 million, with approximately $6.5 million from the regular budget and $6.4 million from the support account. Upon enquiry regarding the current resource estimates, the Committee was informed that, according to the latest projection, the overall expenditure for IPSAS to the end of 2015 would amount to approximately $27 million. In addition, the Committee was informed that, considering the need to remain within the budget and because Umoja would be rolled out in phases, the IPSAS project had taken a considered decision to conserve resources in order to deal with the changing systems landscape.

23. The Advisory Committee notes that the expenditure under general temporary assistance during the current biennium stood at $1.5 million as at 30 June 2013, up from $1 million for the biennium 2010-2011. Upon enquiry, the Committee was informed that the project had initially envisaged using consultants to support the IPSAS team but had experienced difficulty in finding qualified professionals with IPSAS experience who were willing to work on a short-term basis. The Committee was informed that, owing to the dynamic nature of the project and the stringent deadlines, the Organization had had to recruit temporary staff.

24. The Advisory Committee notes that, in paragraph 56 (d) of its report, the Board of Auditors points out that the Organization's decision to implement IPSAS within existing resources at Headquarters and in field offices increases the implementation risk, based on the observation that the risk management returns from some locations away from Headquarters continue to indicate problems in redeploying dedicated resources to deliver implementation. In the same report, however, the Board notes the efforts that have been made to provide increased support to implementation teams where justified. **In this regard, the Advisory Committee reiterates that serious efforts should be made to contain project costs and to absorb additional costs within approved resources (see A/67/564, para. 17).**

25. Coming to the anticipated recurrent costs of the project, the Advisory Committee was informed, upon enquiry, that maintaining compliance with the evolving IPSAS standards would necessitate the continuous alignment of the Organization's systems and processes. In that regard, the Committee was informed that, while it would be premature to comprehensively identify all the recurring costs of the project, some of the prominent recurring costs that were clearly identifiable included additional tasks such as financial statement preparation and year-end

reconciliations to be performed annually in preparation for the new annual audit requirement, compared with the prior biennial process; additional recurring costs to be incurred in annual external audit fees; actuarial valuation of employee benefit liabilities; fixed assets verification; valuation of property, plant and equipment and donated right to use premises; and comparison of actual expenditure to budget[2] to be included in the financial statements, which would entail an extensive and time-consuming exercise. Lastly, the Committee was informed that the Organization would have comprehensive estimates of the recurring costs after IPSAS had been implemented and Umoja fully deployed.

## III. Implementation throughout the United Nations system

26. The progress in the implementation of IPSAS throughout the United Nations system is discussed in paragraphs 84 to 100 of the Secretary-General's report. He indicates that 10 organizations[3] issued their first IPSAS-compliant financial statements for 2012, adding to the 11[4] that had already issued IPSAS-compliant financial statements between 2008 and 2011. All 21 organizations have obtained unqualified audit opinions on their 2012 financial statements, which represents a significant achievement for the implementation of IPSAS throughout the United Nations system. It is further indicated that three organizations (the Food and Agriculture Organization of the United Nations, the Secretariat and the World Tourism Organization) are on schedule to implement IPSAS in 2014 and that all organizations continue to collaborate on IPSAS-related matters through the Task Force on Accounting Standards, which is supported by a system-wide team. **The Advisory Committee expects that concerted efforts to sustain implementation of IPSAS will continue to be made by each of the organizations (see also A/68/381, para. 15).**

27. In support of compliance with IPSAS by the organizations, the Secretary-General indicates that the Task Force and the system-wide team monitor the work of the International Public Sector Accounting Standards Board on behalf of the United Nations system organizations, provide guidance to the organizations on specific IPSAS requirements, organize thematic focus groups on specific technical issues

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[2] In accordance with International Public Sector Accounting Standard 24, the Organization will produce an annual comparison of actual expenditure to the budget and reconcile that activity with the cash flows. A variance of 5 per cent or more in expenses below or above the authorized budget for a peacekeeping mission will require explanation in the financial statements. Similarly, a variance of 10 per cent or more in expenses below or above the authorized budget for regular budget and related activities will require explanation in the financial statements.

[3] International Labour Organization, United Nations Development Programme, United Nations Population Fund, Office of the United Nations High Commissioner for Refugees, United Nations Children's Fund, United Nations Office for Project Services, United Nations Relief and Works Agency for Palestine Refugees in the Near East, United Nations Entity for Gender Equality and the Empowerment of Women, World Health Organization, Joint United Nations Programme on HIV/AIDS.

[4] World Food Programme, International Civil Aviation Organization, International Maritime Organization, International Telecommunication Union, Pan American Health Organization, United Nations Educational, Scientific and Cultural Organization, United Nations Industrial Development Organization, World Intellectual Property Organization, World Meteorological Organization, International Atomic Energy Agency, Universal Postal Union.

and promote interaction between the organizations to minimize accounting diversity and promote consistency.

28. In its report, the Board of Auditors recognizes the successful implementation of IPSAS by the organizations of the United Nations system as a significant achievement, but cautions that all have varying degrees of internal control weaknesses in relation to asset management for property, plant and equipment and inventory that require further action to minimize the risk of losses and error. The Board highlights examples of the weaknesses in paragraph 11 of its report and concludes that all entities still have much to do to establish streamlined and accurate financial statement preparation processes under IPSAS.

29. **While welcoming the progress made by the organizations of the United Nations system towards the implementation of IPSAS, the Advisory Committee takes note of the observations made by the Board of Auditors with regard to weaknesses in asset management and the processes underlying the preparation of IPSAS-compliant financial statements. In this regard, the Committee encourages the continued collaboration among the organizations under the auspices of the Task Force to address the pre-implementation and post-implementation challenges in their respective implementation plans.**

## IV. Actions to be taken by the General Assembly

30. **Taking into account the observations and recommendations contained in the preceding paragraphs and the issues raised by the Board of Auditors, the Advisory Committee recommends that the General Assembly take note of the progress made since the issuance of the fifth progress report and that it request the Secretary-General to continue to report on the status of IPSAS implementation projects in the Secretariat and throughout the United Nations system.**

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## Letter dated 9 October 2013 from the Permanent Representative of Turkey to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith a letter dated 1 October 2013, addressed to you by Mehmet Dânâ, Representative of the Turkish Republic of Northern Cyprus (see annex).

I would be grateful if the text of the present letter and its annex could be circulated as a document of the General Assembly, under agenda item 42, and of the Security Council.

(*Signed*) Y. Halit **Çevik**
Permanent Representative

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## Annex to the letter dated 9 October 2013 from the Permanent Representative of Turkey to the United Nations addressed to the Secretary-General

Upon instructions from my Government, I am writing in response to the letter dated 13 September 2013, addressed to you by the Greek Cypriot representative in New York and circulated as a document of the General Assembly and of the Security Council (A/67/996-S/2013/554), which yet again contains false assertions of "infringements of international air traffic regulations and violations of the national airspace of the Republic of Cyprus by Turkey" and "the illegal use of closed ports by Turkish warships". As was the case in his previous letter, the said letter of the Greek Cypriot representative also included false allegations as regards the Ercan airport in the North.

In response to such pretentious contentions, I wish once again to reiterate that flights within the sovereign airspace of the Turkish Republic of Northern Cyprus take place with the full knowledge and consent of the relevant authorities of the State, over which the Greek Cypriot Administration in South Cyprus has no jurisdiction or right of say whatsoever. It must be stated that assertions of so-called violations of air traffic regulations are unfounded, as the civil aviation authority of the Turkish Republic of Northern Cyprus is the sole competent authority to provide air traffic and aeronautical information services within its own national airspace. Similarly, the claim raised in the said letter in relation to Turkish Cypriot ports is also baseless, given that the Greek Cypriot Administration has no jurisdiction or right of say over Northern Cyprus. This constitutes yet another attempt aimed at distorting the facts and the realities of the island.

As noted in our previous letters, such allegations are based on the false and unlawful claim that the sovereignty of the Greek Cypriot Administration extends over the whole island, including the territory, national airspace and territorial waters of the Turkish Republic of Northern Cyprus. This pretentious claim by the Greek Cypriot side ignores the present realities on the ground, namely the existence of two independent, self-governing States on the island of Cyprus, each exercising sovereignty and jurisdiction within its respective territory.

As for the false claims regarding the Ercan airport in the North, it should be underlined that the technologically up-to-date Ercan area control centre and airport in North Cyprus have been providing successful and safe air traffic services since the Greek Cypriot refusal in 1977 to provide air traffic services in the northern part of the island in line with its isolation policy imposed on the Turkish Cypriot people.

Since then, all flights within the sovereign airspace of the Turkish Republic of Northern Cyprus have taken place with the full knowledge and consent of its Civil Aviation Department, over which the Greek Cypriot Administration in South Cyprus has no jurisdiction or control. The legislation of the Turkish Republic of Northern Cyprus on aeronautical safety reflects all International Civil Aviation Organization standards and recommendations, providing safe, regular and swift navigation of aircraft landing at or taking off from Ercan airport, as well as using the airspace of the Turkish Republic of Northern Cyprus. All airports in Northern Cyprus are in full conformity with international standards, and necessary investments have been made to keep up with the developing technology. The number of air traffic controllers has been increased in keeping with the increasing number of flights over the years, and

the Ercan area control centre is constantly working in close cooperation with the Ankara area control centre in order to ensure the safe conduct of all flights in the region. In fact, each year more than 19,000 flights take place to and from Ercan airport, serving more than 2 million passengers, including Greek Cypriots, and each day approximately 600 aircraft pass through the Ercan advisory airspace. In 2012 alone, 2,777,000 passengers used the Ercan airport. It is predicted that this number will be about 3,000,000 in 2013.

Continuous attempts by the Greek Cypriot side, through often-repeated false statements, to confer legitimacy on the long-defunct "Republic of Cyprus" are futile, since the Turkish Cypriot people will never give in to their unjust demands. What would indeed contribute to a better atmosphere on the island would be for the Greek Cypriot side to stop misappropriating for itself the rights and responsibilities that it does not legally have and to cease its hostile and derogatory acts against the Turkish Cypriot people. Moreover, the Greek Cypriot Administration should once again be reminded that its counterpart is, and has always been, the Turkish Cypriot side, not Turkey, and that its insistent denial of the Turkish Cypriot rights in the north of the island does not bode well for the prospects of finding a lasting settlement of the Cyprus conflict in line with the established United Nations parameters, which envisage a new partnership on the basis of the political equality of the two peoples of the island within the framework of a bizonal, bicommunal federation with two constituent States of equal status.

Availing myself of this opportunity, I would like to call upon the Greek Cypriot side to discontinue its well-known propaganda tactics, which are clearly not conducive to a positive atmosphere on the eve of the resumption, under your good offices mission, of the full-fledged negotiations between the two leaders for a comprehensive settlement in Cyprus. As the Turkish Cypriot side, on the other hand, we are committed to continuing to maintain our constructive and positive stance and encourage our Greek Cypriot neighbours to follow a similar path.

I should be grateful if the text of the present letter could be circulated as a document of the General Assembly, under agenda item 42, and of the Security Council.

(*Signed*) Mehmet **Dânâ**
Representative
Turkish Republic of Northern Cyprus